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THE AGRICULTURAL ADJUSTMENT PROGRAM FOR DAIRY PRODUCTS

by

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The milk agreements are essentially legal instruments. But after these legal instruments are drawn and the procedures are set, all of these whole milk problems will be thrown right back into the communities from which they came. Our plan is to divide the United States as a whole into eleven districts - New England will be one, New York milk shed two, Philadelphia three, etc. These districts will then be divided into market regions or milk sheds. In each market region will be a local market committee to be set up by the folks there. Each of these regions will choose a farmer and a distributor to represent them on the district committee. Those district committees will have to vary in number and, no doubt, in composition. From each of the eleven districts will be chosen one farmer and one distributor to come into the national committee in Washington to handle such problems as are not handled at home. Whole milk marketing problems are essentially local problems. They are peculiarly one of those problems that will be made worse and not better by national centralization. Each of these local regions has its normal milk sheds. These sheds cannot be set up artificially and get good results. By the same token they cannot follow state lines. Indeed, it is not in the interest of anybody that they should follow state lines.

The first and most important prerequisite to statilization in these local milk sheds is that there be local cooperatives around each of them or that they be organized where none now exist and that they be supported and strengthened to the end that when our days are over, and they may be few, there will be left to continue a body of information and administration that can carry on.

The leaders of the Milk Cooperatives have been the only farm leaders in the United States who have had to stand up and assume responsibility and take the gaff for declining prices to farmers. Therefore, all the criticisms, fair and unfair, and all the villifications and all the publicity hounds seeking publicity at the expense of the farmers have nagged at these men since 1929. These leaders have, on the whole, done a good job, a job that has taken ability and rare courage and a great amount of detailed marketing knowledge. To my mind, it would be nothing short of national disaster to lend any influence, locally or nationally, to the destruction of the work of those men.

During the Food Administration Days, I was Milk Administrator. I learned that we could go into a conference with milk distributors and farmers, fight in the forenoon and have a pleasant agreement in the afternoon and everybody say yes and as soon as I got on the sleeper, somebody would be sending me a wire, certainly before breakfast, saying that some one of the distributors had broken his word. From this experience and nothing else, I learned to ask when called into a market, "Do you have a local co-operative organization there?" If they said, "No", I would say, "Get one", because it would do no good to set up a good marketing situation, if the moment I got out of town, someone would tear down the prices to the farmers so that nothing permanent could be obtained, save only where a co-operative organization remained behind to fight for the farmers' rights.

We can strengthen milk cooperatives in all of these localities so

that there will be a fund of marketing knowledge and market experience that is going to live long after you and I are out of the picture, long after the politicians have learned that it doesn't pay to dabble in these affairs.

Our price goal is pre-war parity. We can get pre-war parity by artificial efforts, but getting it and holding it are two very different things. We have gone slowly enough to make sure that we are not destroying the very possibility of maintaining prices.

The milk industry has two embarrassments - first, the price on milk has been the best on the whole of any staple commodity that the farmer has had to sell for 15 years; second, the industry as a whole has paid the highest wage of any similar industry in the United States of any size or consequence for the same period.

Fair milk prices from the farmers' point of view, is essentially a test of whether the farmers are willing to assure themselves of higher prices by producing less milk at lower cost. Dr. Reed and other folks around here have presented the facts and arguments showing that the feeding of high cost concentrates is not the least expensive way of producing milk in a nation-wide program. Only as production is lowered can prices be maintained at a higher relative level. A farmer can make more money by producing less milk and by feeding more of the less expensive foods.

The prices on milk have created a surplus of milk by-products such as butter and cheese. If the return of prosperity in the city by the joint efforts of the A.A.A. and the N.R.A. can return purchasing power to the people, these surpluses will normally disappear.

To lower the present butter surplus, we plan to give butter for relief to those now using a butter substitute by making certain that every man, woman and child in the United States gets butter sufficient for a wholesome diet, not only through relief or otherwise through the public tax-payer, but through educational campaigns as well. The latter job is particularly and peculiarly yours.

To stabilize the price of butter, and to stabilize milk prices by other means as well, a processing tax is soon to be levied of 1¢ a pound.

Butter prices at New York have been stabilized at about 24¢ a pound for 92 score butter in order to save the West from further catastrophe. A normal market price would be about 15¢ at this time. These steps have been taken on butter and cheese prices to help out the farmers of the middle west by preventing a disastrous fall in the price of butter temporarily. We believe the restoration of prosperity and purchasing power is going to sop up these surpluses plus the fact that as other farm prices rise, the farmers can afford to do something else besides milk cows.

The dairy industry is the only farm industry of any size in the United States that has not been on an export basis. With the surplus we now have, the dairy industry is going to be forced on to an export basis unless our production is reduced. Once on an export basis the price on butter must be the London price, less transportation and other costs of getting the butter and other dairy products across the sea. Such a thing as that would be a catastrophe to the dairy business. We must everyone fight to the bitter end to see that the dairy industry is kept on a domestic basis and not on an export basis. Then the Tariff can help.

That must mean in the long run a strong definite production control program. There are many phases of that production control program to discuss. The purpose of production control is to keep for the farmers of the west a domestic not a foreign price for butter, cheese, evaporated milk and all other milk by-products.

Everyone of these trade agreements contain a clause saying that the distributors shall keep such accounts as are prescribed by the Administration and that the accountants for the Administration shall have full and complete access to the records and books of those distributors, and the Secretary shall publish from time to time the results of the audit of these books in the form of statistical data. The purpose of these provisions is to keep spreads down to the lowest possible minimum consistent with quality and decent services.

Outside of the large cities most of the whole milk of the country is distributed by producer-distributors. Even in a state like Pennsylvania, much less than half the whole milk is distributed by professional distributors. Taking the United States as a whole, the greater share by far of all milk is distributed by farmers themselves. We are therefore concerned with prices which the producers themselves may be able to maintain in their markets. The essential purpose of trade agreements is, therefore, to protect the producer-distributor in getting a price for his own milk that is fair and assure the same farm price to his neighbor who may sell to a pasteurizing plant.

We have another definite policy as to these whole milk trade agreements. They must provide some way of production control. We have not set up any one way. Every device has been used once.

These plans for controlling production will have to be adopted to the size of the area, percentage of the surplus, health regulations and countless dozens of other things. I have given you the reason why we must insist on production control. What nonsense it is to put a tax on butterfat to encourage more surplus to take more tax to create more surplus to spend more tax. That is utter rank nonsense. It does not offer permanency. To the contrary it offers very grave disaster, save as we use these funds to meet an emergency while we are turning to production control.

We are engaged in the uneconomic thing of trying to raise prices to farmers before their markets invite prices to rise. It is the only thing to do.

We have other problems that we must pass on. One is the unethical loss leader. One-half the milk farmers in the United States in the last ten years have had their prices crashed to a butterfat level by the determination of some gyp to buy anything that is white and sell at as low a price as possible with as low wages as possible in order to attract some female into his store to buy something else while buying milk and to pay for that something else a price high enough to make up the loss on milk. This unethical practice is a detriment to the whole industry. I think an industry that can't build up its own business without false advertising and false statements of that kind deserves to go by the board.

We have been working on butter agreements and on agreements on cheese, evaporated milk, dry milk, ice cream and every other branch of the industry. We will have one committee on butter, one on cheese, one on ice cream, one on

evaporated milk, etc. Each will have its chairman and when we get the group together, the dairy industry can speak as a group to the end that the prices paid for milk will be as high as is consistent with keeping production down to domestic use.

THE CHAIRMAN: Undoubtedly everyone here is impressed with the tremendous job that Dr. King has. With your permission, Dr. King, we will ask questions. Do any of you have questions you would like to put before Dr. King at this time?

MR. MANCHESTER (Connecticut): I think Dr. King suggested a little more discussion on production control.

DR. KING: Well, let me say right off the bat that among the suggestions for production control have been the following:

First, that we somehow or other take cows off the market. There have been several varieties of that: 1. It will take about two million dollars to clean up all the T.B. in the United States outside of California. California has been a backward State in that one respect, tremendously forward in everything else. There are a lot of reasons for that, and I have tried to find them out, and, like everything else, there are good reasons. Like the savage who kept his windows closed at night so as not to let the angels of the devil come in. What he really was doing was to keep out the mosquitoes. The second was to buy cows three to four years in calf pregnant, for the reason, first, it will reduce production now; second, it will reduce production in the next five years. Third, we will have to buy culls, and with the money that we have we can make a dint. The fourth proposition is to begin to buy heifers, pregnant. I haven't heard much on that because it is forward looking and has nothing to do with the present. If we could, we would buy every cull in the United States. There is another problem that I wish we could do something with. I wish someone would suggest a way to get rid of the Bang's disease in the United States. If I knew a method, with the possibility of money, by which we could do that, I would go after it. The problems involved are so tremendously difficult that I suppose we have to abandon it. It does not pay to take one reactor out of a farmer's herd and bring in one other cow. You just make that worse. I speak from bitter experience, because I have a Jersey herd of my own, and the one fact that is hardest to get over is that when you begin to try cross-breeding of these, they somehow grow more violent, and the best thing to do with the farmer who has a diseased herd is to let it alone. Maybe these folks down here are working to invent a serum some day that has something to do with the Bang's disease. It may be that every farmer has the hope that his herd will be Bang's free. We haven't been able to figure it out. We have in the audience here a farmer from Maryland who has been added to our staff. His sole job is to just keep mulling around and see if there isn't something to do for Bang's disease. I remember when I was in England in 1928 I was up at Glasgow where a surgeon, a specialist in women's diseases, had gotten himself a herd of 500 Ayrshires. He was a biologist and he had all the sciences in Europe at his disposal. He was the boy who was going to find out all about this disease. Well, I think he went bankrupt. I think that would be hopeless for us here. We have an immediate program.

I think that the dairy industry, not now an export industry, with the proper amount of preparation and self-interest, can keep ourselves a domestic industry, without burdening the farmer with the extra heavy taxes at this time, for the tax^{payer} is going to be mighty tax-weary by next Congress.

Now then we are going to have to get down to what we are really going to do. We are going to ask the milk industry that the production be cut down. That, however, is only half of the problem, probably not half. What are you going to do with the butter folks? Is the farmer going to make home-made

butter and sell it around and keep the prices down. I am not sure but what we may come to an allocation of cheese and concentrate. Another thing that hasn't been discussed is the control of credit. You know that the great bulk of farmers' credit is going to be in bad shape. Therefore, if the farmer agencies, if they can stand the gaff of the yelp of the Congressmen back home who want to be reelected, we have the means by which we can save the dairy industry from a complete disorganization and a profit-making industry by preventing the export. Now, that is the radical arm; the extreme arm. I hope that it doesn't have to be used. If you choose between methods of that kind and let the dairy industry to a surplus industry with the disaster that it is going to meet in the long run, I am one of those who is willing to try anything once at production control. Now those are the things that are now being discussed. There is a very able committee working on it. We are right on the verge of it. We have to have production control in effect before next April. The most we can ever hope to do by practice is to stabilize production of milk through butter and cheese.

MR. WARD (Virginia): You spoke of sending an agreement back to local markets and leaving it up to the local people. What are we going to do when we get an organization that puts up a case in line with the standard form of agreement and says that we will not go ahead on that.

DR. KING: I would like to have one of them. In one or two of these cases I have gotten on the telephone - under the law we want trade agreements; the law gives us power to license, whether or not there is a trade agreement - and at the end of that telephone conversation we got the trade agreement.

MR. REED: Any further questions? None. We appreciate your kindness, Dr. King, in coming over and giving us this wonderful talk. I was informed this morning, or rather yesterday morning, about this production control committee being appointed, and I know of two or three other members who have been put on this committee, but I do not know whether our Mr. Tolley is on the committee, but I presume so; also Mr. Gaumnitz. There have been a great many suggestions made over the country concerning production control in the dairy industry. If any of you gentlemen have any real ideas, brilliant ideas, we will be glad to have them, and I am sure Dr. King's committee would be glad to have them. There has been a great deal of discussion in relation to diseased cows, and I think everyone will agree that so far as the work is concerned, particularly with tubercular cows, no one can find a flaw with those suggestions, and the other diseases which Dr. King has discussed. We will be glad to listen if you have any other ideas on this problem of production control that will fit your particular sections, because I do not believe we are going to have any one method that is going to work out in every section of the United States. It is almost impossible to conceive of a method that could be used exclusively and would work out in all sections. Is there any further discussion you would like to enter into?

(MEMBER): I would like some discussion on the parity question. I cannot get it through my mind how they arrive at their parity price, considering the fact that they are selling cows. Just what is the justice in that?

MR. REED: Well, I would like to have someone from the milk section to discuss that.

(MEMBER): The dairy situation explains that very well.

MR. REED: Does it give the amount of parity?

(MEMBER): Yes, and shows how they figure it.

(ANOTHER MEMBER): I do not feel that we have started in on this question of dairy production. I am wondering if this is the end of this session, or will we have another session on that question.

MR. REED: I do not know what they intend to bring up this afternoon, but I think they will take up this afternoon the regular outlook report. This is the only session which is to be devoted to the AAA program.

(MEMBER): The question occurred to me, is the domestic allotment principle to be applied to the dairy industry. A great many of the producers are of the opinion that if foreign oils were to be shut out, that would be a solution. Why not go into some of those questions?

MR. REED: That would be very fine. That question has been brought up in these conferences; for instance, when the butter code was discussed on several occasions this summer. The entire butter industry represented here brought this to the fore and the matter was discussed as well as for instance oleomargarine and other butter substitutes which were concerned. They have been very cooperative and willing to work under most any sort of plan that is fair and equitable, and which the administration might bring out. There has been quite a division in the ranks, but nevertheless there has been the tendency to fair play on that whole question. The question of barring foreign oils is one that is over my head, and I cannot discuss it.

MR. SHEPHERD: Would it not be well to call together a little group interested in control production and get what ideas we can from that group and exchange ideas?

MR. REED: I think that would be a very excellent thing. I do not know who is the chairman of this particular group, but I am sure that as a member of the committee we would like to see the group brought together to discuss this question of production control. You can certainly give your opinions of the ideas already expressed. These suggestions have been made from all over the country. Perhaps, as Mr. Shepherd suggests, we may be able to get an hour or some part of the program where we might get together. Are there any other suggestions as to where we might meet?

MR. MARCUS: Could they not very well meet with us for a short period before the other discussions this afternoon, or at eight o'clock in the same room? Suppose they come around at 7:15 and I think Dr. King would be glad to answer further questions, and you could have some of the other members of the committee, Mr. Gaumnitz, and possibly some of the others who would be glad to take part in the discussion. Whatever time would be satisfactory, I am sure could be arranged. Shall we say then that we will meet tonight in this room at seven o'clock?

MR. REED: Now we have left for this afternoon our regular dairy outlook report. I believe we have left over the report on sheep, lambs, and wool.